

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended .

Unit Name	Village of Perrinton	County	GRATIOT	Type	VILLAGE	MuniCode	29-3-030
Opinion Date-Use Calendar	Jul 2, 2008	Audit Submitted-Use Calendar	Jul 8, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 135,823.00
General Fund Expenditure:	\$ 119,307.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 129,461.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Aaron	Last Name	Stevens	Ten Digit License Number	1101024055				
CPA Street Address	3511 Coolidge Road, Suite 10	City	East Lansing	State	MI	Zip Code	48823	Telephone	+1 (517) 351-6836
CPA Firm Name	Abraham & Gaffney, P.C.	Unit's Street Address	P.O. Box 397	City	Perrinton	LU Zip	48871		

**Village of Perrinton
Gratiot County, Michigan**

FINANCIAL STATEMENTS

February 29, 2008

Village of Perrinton
Gratiot County, Michigan

February 29, 2008

VILLAGE COUNCIL AND ADMINISTRATION

Douglas Antes	President
Franklin Biddinger	Trustee
Kelly Neubauer	Trustee
Patricia Askegard	Trustee
Larry Blair	Trustee
William Knight	Trustee
Jason Blemaster	Trustee
Maxine Martin	Clerk
Barbara Helms	Treasurer

Village of Perrinton

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Perrinton
Perrinton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Perrinton, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Perrinton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Perrinton, Michigan as of February 29, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Perrinton's financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 2, 2008

East Lansing ■ Rochester Hills ■ St. Johns

Village of Perrinton

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Village of Perrinton's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 29, 2008. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$1,106,603.
- Governmental activities net assets were \$676,970.
- Business-type activities net assets were \$429,633.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$310,292 with \$2,705 being reserved for specific purposes.
- The General Fund realized \$11,583 more in revenues than anticipated for the fiscal year. The General Fund operations and other financing uses expended \$101,109 more than appropriated.
- Overall, the General Fund fund balance decreased by \$77,800 to \$129,461 with \$128,613 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The primary government issued no debt for the year.
- The total long-term debt for the Village was \$155,000 with a net reduction of \$30,000 from the prior year.
- The total addition to the capital asset schedule for the Village was \$71,696, consisting primarily of water system upgrades.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), and *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds.

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

Village of Perrinton

Management's Discussion and Analysis

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during 2008. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, fire protection, Village improvements, street improvements, recreation activities, and other Village wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water and Sewer funds are an example of these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- The contribution of capital assets used in governmental activities also results in capital assets on the government-wide statements but does not provide current financial resources, and therefore is not reported as revenue in the fund financial statements.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Perrinton include the General Fund, the Major Street Fund, the Local Street Fund, the Fire Fund, the Water Fund and the Sewer Fund. For the year ended February 29, 2008, the Village had no funds that were classified as nonmajor funds.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

Village of Perrinton

Management's Discussion and Analysis

- Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example are the Water and Sewer Funds.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 13 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, Village of Perrinton's combined net assets were \$1,106,603 at the end of this year's operations. The net assets of the governmental activities were \$676,970; the business type activities were \$429,633.

Summary of Net Assets:

The following summarizes the net assets as of February 29, 2008 and February 28, 2007.

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Assets						
Current and other assets	\$407,563	\$327,492	\$47,347	\$56,494	\$454,910	\$383,986
Capital assets	405,001	366,678	498,832	535,694	903,833	902,372
Total assets	812,564	694,170	546,179	592,188	1,358,743	1,286,358
Liabilities						
Current	19,285	17,200	40,504	37,555	59,789	54,755
Noncurrent	-	-	155,000	125,000	155,000	125,000
Total liabilities	19,285	17,200	195,504	162,555	214,789	179,755

Village of Perrinton

Management's Discussion and Analysis

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Net Assets						
Invested in capital assets-						
net of related debt	\$405,001	\$366,678	\$313,832	\$380,694	\$718,833	\$747,372
Restricted	180,087	178,927	-	-	180,087	178,927
Unrestricted	208,191	131,365	36,843	48,939	245,034	180,304
Total net assets	<u>\$793,279</u>	<u>\$676,970</u>	<u>\$350,675</u>	<u>\$429,633</u>	<u>\$1,143,954</u>	<u>\$1,106,603</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Years Ending February 29, 2008 and February 28, 2007

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues						
Program revenue:						
Charges for services	\$ 52,339	\$ 50,717	\$ 91,420	\$ 104,707	\$ 143,759	\$ 155,424
Operating grants and contributions	38,320	38,521	-	-	38,320	38,521
General revenues:						
Property taxes	50,343	51,834	-	-	50,343	51,834
State Revenue Sharing	42,573	41,665	-	-	42,573	41,665
Investment earnings	8,171	7,511	105	72	8,276	7,583
Miscellaneous	22,970	10,607	1,105	15,252	24,075	25,859
Total revenues	<u>214,716</u>	<u>200,855</u>	<u>92,630</u>	<u>120,031</u>	<u>307,346</u>	<u>320,886</u>
Expenses						
General government	75,765	89,925	-	-	75,765	89,925
Public safety	52,525	57,541	-	-	52,525	57,541
Public works	82,525	78,044	-	-	82,525	78,044
Recreation and cultural	2,087	2,338	-	-	2,087	2,338
Water and Sewer	-	-	129,165	140,773	129,165	140,773
Total expenses	<u>212,902</u>	<u>227,848</u>	<u>129,165</u>	<u>140,773</u>	<u>342,067</u>	<u>368,621</u>
Excess (Deficiency)	1,814	(26,993)	(36,535)	(20,742)	(34,721)	(47,735)
Transfers	-	(89,316)	-	89,316	-0-	-0-
Change in net assets	1,814	(116,309)	(36,535)	68,574	(34,721)	(47,735)
Net assets, beginning of year	791,465	793,279	387,210	350,675	1,178,675	1,143,954
Prior period adjustments	-	-	-	10,384	-	10,384
Net assets, end of year	<u>\$ 793,279</u>	<u>\$ 676,970</u>	<u>\$ 350,675</u>	<u>\$ 429,633</u>	<u>\$ 1,143,954</u>	<u>\$ 1,106,603</u>

Governmental Activities:

The result of 2008 governmental activity was a decrease of \$116,309 in net assets to \$676,970. Of the total governmental activities' net assets, \$366,678 is invested in capital assets; \$178,927 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the Village government. The balance of \$131,365 is listed as unrestricted, having no legal commitment.

Village of Perrinton

Management's Discussion and Analysis

Revenues:

The three largest revenue categories were charges for services at 25%, property taxes at 26%, and State Revenue Sharing at 21%. The Village levied 10.5118 mills for general government operations, which is not assigned to any particular activity. Charges for services, which reimburse the Village for specific activities such as garbage collection, are the largest source of governmental activity revenue.

Expenses:

General government is the largest area, expending approximately 39% of the governmental activities total, and includes the financial administration and Village hall functions. Public works was the second largest activity this year, expending approximately 34% of the governmental activities total on areas such as garbage collection, road and street maintenance and improvements, the department of public works functions.

Business-type Activities:

Net assets in business-type activities increased by \$47,735 during 2008. Of the business-type activities' net assets, \$380,694 is invested in capital assets less related debt. The balance of \$48,939 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR FUNDS

As the Village completed 2008, its governmental funds reported *combined* fund balances of \$310,292. This is a net decrease of \$77,986. The net changes for the governmental funds are summarized in the following chart:

	General Fund	Major Street Fund	Local Street Fund	Fire Fund
Fund Balance 2/28/07	\$ 207,261	\$ 96,245	\$ 83,842	\$ 930
Fund Balance 2/29/08	129,461	91,671	87,842	1,904
Net Change	\$ (77,800)	\$ (4,574)	\$ 3,414	\$ 974

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 29, 2008, the General Fund reported a fund balance of \$129,461. This amount is a decrease of \$77,800 from the fund balance of \$207,261 reported as of February 28, 2007. The 2008 original budget called for a \$23,760 increase of fund balance. \$848 of fund balance is reported as reserved.

General Fund Budgetary Highlights:

The Village of Perrinton's budget is a dynamic document. Although adopted prior to March 1 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$135,823, \$11,583 over the final amended budget. The final amended budget was \$6,820 lower than the original budget and was about 9.3% different than the final actual amount.

The Village's expenditure budget was increased by \$10,603 (9.9% above the original budget) during 2008. Actual Village expenditures and other financing uses for 2008 were \$95,720 over budget. General Fund actual expenditures and other financing uses came in at \$213,623 and the final budgeted amount was \$117,903, which was a 81% difference. This overage was the result of a transfer from the General Fund to the Water Fund to finance a portion of system upgrades.

Village of Perrinton Management's Discussion and Analysis

Major Street Fund:

As of February 29, 2008, the Major Street Fund reported a fund balance of \$91,671. \$212 of fund balance is reported as reserved.

Local Street Fund:

As of February 29, 2008, the Local Street Fund reported a fund balance of \$87,842. \$355 of fund balance is reported as reserved. There were no material changes noted between the original and final amended budgeted revenues or expenditures.

Fire Fund:

As of February 29, 2008, the Fire Fund reported a fund balance of \$1,904. \$1,290 of fund balance is reported as reserved. During the year the budget was amended by decreasing revenues and other sources by \$14,050. The expenditures budget was also decreased by \$5,610. Actual expenditures exceeded the appropriated amount by \$1,151.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of year 2008, the Village had invested \$902,372, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,518,545 for the Village. Depreciation charges for the fiscal year totaled \$83,541. Additional information related to capital assets is detailed in Note E of the Financial Statements. Net book value of capital assets at February 29, 2008 was as follows:

	Governmental Activities	Business- type Activities	Total
Land	\$ 142,548	\$ 35,706	\$ 178,254
Construction in progress	-	44,668	44,668
Land improvements, net	-	-	-0-
Buildings and improvements, net	157,216	13,148	170,364
Machinery and equipment, net	61,664	22,143	83,807
Vehicles, net	5,250	-	5,250
Water and sewer systems, net	-	420,029	420,029
Capital assets, net	\$ 366,678	\$ 535,694	\$ 902,372

Long-term Debt - As of February 29, 2008, the Village had \$155,000 in debt outstanding. This level of net obligation is \$30,000 less than the obligation recorded as of February 28, 2007.

Outstanding Debt as of February 29, 2008:

	<u>Mar. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Feb. 29, 2008</u>
Business-type Activities				
Water Supply Bonds	\$ 185,000	\$ -0-	\$ 30,000	\$ 155,000

A more detailed discussion of the Village's long-term debt obligations is presented in Note F to the financial statements.

Village of Perrinton Management's Discussion and Analysis

VILLAGE OF PERRINTON GOVERNMENT ECONOMIC OUTLOOK:

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been affected and any further cuts would affect the services that we provide to the citizens of the Village of Perrinton.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings have been on the rise.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the Budget for 2009. An increase of \$21,856 to the Village's fund balance was anticipated to balance the General Fund Budget, although it is estimated that the increase will be significantly lower. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at 118 S. Robinson Street, Perrinton, MI 48871.

BASIC FINANCIAL STATEMENTS

Village of Perrinton

STATEMENT OF NET ASSETS

February 29, 2008

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 234,693	\$ 35,047	\$ 269,740
Receivables	5,928	16,766	22,694
Due from other governmental units	6,946	-	6,946
Internal balances	(4,243)	4,243	-0-
Prepays	2,705	438	3,143
Total current assets	246,029	56,494	302,523
Noncurrent assets			
Investments	81,463	-	81,463
Capital assets not being depreciated	142,548	80,374	222,922
Capital assets, net of accumulated depreciation	224,130	455,320	679,450
Total noncurrent assets	448,141	535,694	983,835
TOTAL ASSETS	694,170	592,188	1,286,358
LIABILITIES			
Accounts payable	4,751	3,793	8,544
Accrued wages	3,691	-	3,691
Other accrued liabilities	1,280	2,718	3,998
Deferred revenue	7,478	1,044	8,522
Current portion of long-term debt	-	30,000	30,000
Total current liabilities	17,200	37,555	54,755
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	125,000	125,000
TOTAL LIABILITIES	17,200	162,555	179,755
NET ASSETS			
Invested in capital assets, net of related debt	366,678	380,694	747,372
Restricted for streets and highways	178,927	-	178,927
Unrestricted	131,365	48,939	180,304
TOTAL NET ASSETS	\$ 676,970	\$ 429,633	\$ 1,106,603

See accompanying notes to financial statements.

Village of Perrinton
STATEMENT OF ACTIVITIES
Year Ended February 29, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
Governmental activities						
General government	\$ 89,925	\$ 6,585	\$ -	\$ (83,340)	\$ -	\$ (83,340)
Public safety	57,541	23,350	-	(34,191)	-	(34,191)
Public works	78,044	20,782	38,521	(18,741)	-	(18,741)
Recreation and cultural	2,338	-	-	(2,338)	-	(2,338)
Total governmental activities	227,848	50,717	38,521	(138,610)	-0-	(138,610)
Business-type activities						
Sewer	67,050	56,449	-	-	(10,601)	(10,601)
Water	73,723	48,258	-	-	(25,465)	(25,465)
Total business-type activities	140,773	104,707	-0-	-0-	(36,066)	(36,066)
Total	<u>\$ 368,621</u>	<u>\$ 155,424</u>	<u>\$ 38,521</u>	(138,610)	(36,066)	(174,676)
General revenues						
Property taxes				51,834	-	51,834
State shared revenue				41,665	-	41,665
Investment earnings				7,511	72	7,583
Miscellaneous				10,607	15,252	25,859
Transfers				(89,316)	89,316	-0-
Total general revenues and transfers				22,301	104,640	126,941
Change in net assets				(116,309)	68,574	(47,735)
Restated net assets, beginning of the year				793,279	361,059	1,154,338
Net assets, end of the year				<u>\$ 676,970</u>	<u>\$ 429,633</u>	<u>\$ 1,106,603</u>

See accompanying notes to financial statements.

Village of Perrinton

GOVERNMENTAL FUNDS BALANCE SHEET

February 29, 2008

	General	Major Street
ASSETS		
Cash and cash equivalents	\$ 59,745	\$ 76,328
Investments	71,463	10,000
Receivables		
Accounts	1,926	-
Taxes	4,002	-
Due from other governmental units	-	5,131
Prepays	848	212
TOTAL ASSETS	<u>\$ 137,984</u>	<u>\$ 91,671</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 3,328	\$ -
Accrued wages	3,691	-
Other accrued liabilities	1,280	-
Due to other funds	-	-
Deferred revenue	224	-
TOTAL LIABILITIES	8,523	-0-
FUND BALANCES		
Reserved for prepaids	848	212
Unreserved		
Undesignated, reported in		
General fund	128,613	-
Special revenue funds	-	91,459
TOTAL FUND BALANCES	<u>129,461</u>	<u>91,671</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 137,984</u>	<u>\$ 91,671</u>

See accompanying notes to financial statements.

Local Street	Fire	Total Governmental Funds
\$ 85,086	\$ 13,534	\$ 234,693
-	-	81,463
-	-	1,926
-	-	4,002
1,815	-	6,946
355	1,290	2,705
<u>\$ 87,256</u>	<u>\$ 14,824</u>	<u>\$ 331,735</u>
\$ -	\$ 1,423	\$ 4,751
-	-	3,691
-	-	1,280
-	4,243	4,243
-	7,254	7,478
<u>-0-</u>	<u>12,920</u>	<u>21,443</u>
355	1,290	2,705
-	-	128,613
86,901	614	178,974
<u>87,256</u>	<u>1,904</u>	<u>310,292</u>
<u>\$ 87,256</u>	<u>\$ 14,824</u>	<u>\$ 331,735</u>

Village of Perrinton

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 29, 2008

Total fund balance - governmental funds \$ 310,292

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 910,615
Accumulated depreciation is	<u>(543,937)</u>

Capital assets, net	<u>366,678</u>
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Net assets of governmental activities	<u><u>\$ 676,970</u></u>
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See accompanying notes to financial statements.

Village of Perrinton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended February 29, 2008

	General	Major Street
REVENUES		
Taxes	\$ 51,834	\$ -
Licenses and permits	10	-
Intergovernmental	43,446	28,567
Charges for services	17,625	-
Interest and rents	16,431	504
Other	6,477	45
TOTAL REVENUES	135,823	29,116
EXPENDITURES		
Current		
General government	81,806	-
Public safety	500	-
Public works	35,569	26,534
Recreation and cultural	1,432	-
Capital outlay	-	-
TOTAL EXPENDITURES	119,307	26,534
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	16,516	2,582
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(94,316)	(7,156)
TOTAL OTHER FINANCING SOURCES (USES)	(94,316)	(7,156)
NET CHANGE IN FUND BALANCES	(77,800)	(4,574)
Fund balances, beginning of year	207,261	96,245
Fund balances, end of year	\$ 129,461	\$ 91,671

See accompanying notes to financial statements.

Local Street	Fire	Total Governmental Funds
\$ -	\$ -	\$ 51,834
-	-	10
10,107	-	82,120
-	23,350	40,975
274	35	17,244
-	2,150	8,672
10,381	25,535	200,855
-	-	81,806
-	27,661	28,161
14,123	-	76,226
-	-	1,432
-	1,900	1,900
14,123	29,561	189,525
(3,742)	(4,026)	11,330
7,156	5,000	12,156
-	-	(101,472)
7,156	5,000	(89,316)
3,414	974	(77,986)
83,842	930	388,278
\$ 87,256	\$ 1,904	\$ 310,292

Village of Perrinton

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Net change in fund balances - total governmental funds	\$ (77,986)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	<u>(38,323)</u>
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Change in net assets of governmental activities	<u>\$ (116,309)</u>
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See accompanying notes to financial statements.

Village of Perrinton

Proprietary Funds

STATEMENT OF NET ASSETS

February 29, 2008

	Business-type Activities		
	Sewer Fund	Water Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 8,624	\$ 26,423	\$ 35,047
Accounts receivable	7,765	9,001	16,766
Prepays	219	219	438
Due from other funds	-	4,243	4,243
Total current assets	16,608	39,886	56,494
Noncurrent assets			
Capital assets not being depreciated	35,706	44,668	80,374
Capital assets, net	110,613	344,707	455,320
Total noncurrent assets	146,319	389,375	535,694
TOTAL ASSETS	162,927	429,261	592,188
LIABILITIES			
Current liabilities			
Accounts payable	1,881	1,912	3,793
Customer deposits	-	342	342
Accrued interest payable	-	2,376	2,376
Deferred revenue	234	810	1,044
Current portion of notes payable	-	30,000	30,000
Total current liabilities	2,115	35,440	37,555
Noncurrent liabilities			
Notes payable	-	125,000	125,000
TOTAL LIABILITIES	2,115	160,440	162,555
NET ASSETS			
Invested in capital assets, net of related debt	146,319	234,375	380,694
Unrestricted	14,493	34,446	48,939
TOTAL NET ASSETS	\$ 160,812	\$ 268,821	\$ 429,633

See accompanying notes to financial statements.

Village of Perrinton

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended February 29, 2008

	Business-type Activities		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 56,449	\$ 38,112	\$ 94,561
Other			
Equipment rent	-	10,146	10,146
Other	13,727	1,525	15,252
TOTAL OPERATING REVENUES	70,176	49,783	119,959
OPERATING EXPENSES			
Salaries and wages	12,910	11,478	24,388
Fringe benefits	7,581	6,726	14,307
Contractual services	2,573	2,019	4,592
Utilities	16,190	2,526	18,716
Telephone	756	2,050	2,806
Supplies	8,207	7,484	15,691
Insurance	1,360	1,797	3,157
Repairs and maintenance	488	1,051	1,539
Other	530	2,358	2,888
Depreciation	16,455	28,763	45,218
TOTAL OPERATING EXPENSES	67,050	66,252	133,302
OPERATING INCOME (LOSS)	3,126	(16,469)	(13,343)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	9	63	72
Interest expense	-	(7,333)	(7,333)
Paying agent fees	-	(138)	(138)
TOTAL NONOPERATING REVENUES (EXPENSES)	9	(7,408)	(7,399)
INCOME (LOSS) BEFORE TRANSFERS	3,135	(23,877)	(20,742)
TRANSFERS IN	157,677	89,316	246,993
TRANSFERS OUT	-	(157,677)	(157,677)
TOTAL TRANSFERS	157,677	(68,361)	89,316
CHANGE IN NET ASSETS	160,812	(92,238)	68,574
Restated net assets, beginning of year	-	361,059	361,059
Net assets, end of year	\$ 160,812	\$ 268,821	\$ 429,633

See accompanying notes to financial statements.

Village of Perrinton

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended February 29, 2008

	Business-type Activities		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 62,645	\$ 38,341	\$ 100,986
Cash receipts from other funds	-	10,146	10,146
Cash paid to suppliers	(28,442)	(24,175)	(52,617)
Cash paid for employee benefits	(7,581)	(6,726)	(14,307)
Cash paid to employees	(12,910)	(11,478)	(24,388)
Cash paid to other funds	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,712	6,108	19,820
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	15,211	89,316	104,527
Transfers out	-	(15,211)	(15,211)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	15,211	74,105	89,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital assets purchases	(20,308)	(51,388)	(71,696)
Interest and fiscal charges	-	(7,471)	(7,471)
Payments of borrowing	-	(30,000)	(30,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(20,308)	(88,859)	(109,167)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	9	63	72
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,624	(8,583)	41
Cash and cash equivalents, beginning of year	-	35,006	35,006
Cash and cash equivalents, end of year	<u>\$ 8,624</u>	<u>\$ 26,423</u>	<u>\$ 35,047</u>

Village of Perrinton

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended February 29, 2008

	Business-type Activities		
	Sewer Fund	Water Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 3,126	\$ (16,469)	\$ (13,343)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	16,455	28,763	45,218
(Increase) in accounts receivable	(7,765)	(1,340)	(9,105)
(Increase) decrease in prepaids	(219)	218	(1)
Increase (decrease) in accounts payable	1,881	(4,698)	(2,817)
Increase in deferred revenue	234	14	248
Increase in customer deposits	-	30	30
(Decrease) in accrued interest payable	-	(410)	(410)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 13,712</u>	<u>\$ 6,108</u>	<u>\$ 19,820</u>

Note: The Village also transferred noncash resources in the amount of \$142,466 from the Water Fund to establish the Sewer Fund. Resources transferred consisted of capital assets, net of accumulated depreciation, and accounts receivable as of March 1, 2007.

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Perrinton is located in Gratiot County, Michigan and has a population of approximately 435. The Village of Perrinton operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Perrinton. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Perrinton contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Fire Fund is used to account for the financial resources that are used for fire protection.
- e. The Sewer Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Water Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Clerk submits to the Village Council the proposed operating budgets for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 29, 2008 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

Investments include U.S. Government Securities and certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Tax

The Village of Perrinton bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Perrinton on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (approximately \$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 29, 2008, the Village levied 10.5118 mills for general governmental services. The total taxable value for the 2007 levy for property within the Village was \$4,919,281.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund and Water Fund record charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	5 years
Buildings and improvements	5 - 40 years
Vehicles	5 years
Machinery and equipment	5 - 20 years
Water and sewer systems	5 - 40 years

10. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 29, 2008, the carrying amount of the Village's deposits was \$275,283 and the bank balance was \$277,630, of which \$200,000 was covered by federal depository insurance. The remaining balance of \$77,630 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments

As of February 29, 2008, the market values, which are the carrying values for each investment, are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Money market funds	\$ 4,457	\$ 4,457	N/A	N/A
Federal Home Loan Mortgage	44,013	44,013	Aaa	8.7 years
Federal National Mortgage Association	<u>27,450</u>	<u>27,450</u>	Aaa	25.5 years
TOTAL REPORTING ENTITY	<u>\$ 75,920</u>	<u>\$ 75,920</u>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 29, 2008:

Cash and cash equivalents	\$ 269,740
Investments - noncurrent	<u>81,463</u>
	<u>\$ 351,203</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at February 29, 2008, are as follows:

Due to Water Fund from:	
Fire Fund	<u>\$ 4,243</u>

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
Major Street Fund	<u>\$ 7,156</u>
Transfers to Fire Fund from:	
General Fund	<u>\$ 5,000</u>
Transfers to Water Fund from:	
General Fund	<u>\$ 89,316</u>
Transfers to Sewer Fund from:	
Water Fund	<u>\$ 157,677</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

Governmental activities

	Balance Mar. 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Capital assets not being depreciated:				
Land	\$ 142,548	\$ -	\$ -	\$ 142,548
Capital assets being depreciated:				
Land improvements	76,047	-	-	76,047
Buildings and improvements	244,265	-	-	244,265
Vehicles	225,601	-	-	225,601
Machinery and equipment	<u>225,124</u>	<u>-</u>	<u>(2,970)</u>	<u>222,154</u>
Subtotal	771,037	-0-	(2,970)	768,067
Less accumulated depreciation for:				
Land improvements	(76,047)	-	-	(76,047)
Buildings and improvements	(78,226)	(8,823)	-	(87,049)
Vehicles	(217,351)	(3,000)	-	(220,351)
Machinery and equipment	<u>(136,960)</u>	<u>(26,500)</u>	<u>2,970</u>	<u>(160,490)</u>
Subtotal	<u>(508,584)</u>	<u>(38,323)</u>	<u>2,970</u>	<u>(543,937)</u>
Net capital assets being depreciated	<u>262,453</u>	<u>(38,323)</u>	<u>-0-</u>	<u>224,130</u>
Total net capital assets	<u>\$ 405,001</u>	<u>\$ (38,323)</u>	<u>\$ -0-</u>	<u>\$ 366,678</u>

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

Governmental activities - continued

Depreciation expense was charged to the following governmental activities:

General government	\$ 7,291
Public safety	29,095
Public works	1,046
Recreation and cultural	<u>891</u>
Total depreciation expense	<u>\$ 38,323</u>

Business-type activities

	Restated Balance Mar. 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Capital assets not being depreciated:				
Land	\$ 35,706	\$ -	\$ -	\$ 35,706
Construction in progress	<u>10,384</u>	<u>34,284</u>	<u>-</u>	<u>44,668</u>
Subtotal	46,090	34,284	-0-	80,374
Capital assets being depreciated:				
Buildings and improvements	30,783	-	-	30,783
System and mains	1,183,493	17,104	-	1,200,597
Machinery and equipment	168,348	20,308	(833)	187,823
Vehicles	<u>10,725</u>	<u>-</u>	<u>-</u>	<u>10,725</u>
Subtotal	1,393,349	37,412	(833)	1,429,928
Less accumulated depreciation for:				
Buildings and improvements	(16,382)	(1,253)	-	(17,635)
System and mains	(739,168)	(41,400)	-	(780,568)
Machinery and equipment	(163,948)	(2,565)	833	(165,680)
Vehicles	<u>(10,725)</u>	<u>-</u>	<u>-</u>	<u>(10,725)</u>
Subtotal	<u>(930,223)</u>	<u>(45,218)</u>	<u>833</u>	<u>(974,608)</u>
Net capital assets being depreciated	<u>463,126</u>	<u>(7,806)</u>	<u>-0-</u>	<u>455,320</u>
Total net capital assets	<u>\$ 509,216</u>	<u>\$ 26,478</u>	<u>\$ -0-</u>	<u>\$ 535,694</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 29, 2008:

	Balance Mar. 1, 2007	Additions	Deletions	Balance Feb. 29, 2008	Amounts Due Within One Year
Business-type activities					
2002 Water Supply Bonds	<u>\$ 185,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 155,000</u>	<u>\$ 30,000</u>

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Water Supply and Distribution System Revenue Refunding Bonds

\$285,000 Water Supply Bonds dated January 1, 2002, due in annual installments ranging from \$30,000 to \$35,000 through May 1, 2012, with interest of 4.30 to 4.85 percent, payable semi-annually.

\$ 155,000

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

<u>Year Ending February 28,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 30,000	\$ 6,483	\$ 36,483
2010	30,000	5,163	35,163
2011	30,000	3,798	33,798
2012	30,000	2,403	32,403
2013	<u>35,000</u>	<u>848</u>	<u>35,848</u>
	<u>\$ 155,000</u>	<u>\$ 18,695</u>	<u>\$ 173,695</u>

NOTE G: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 3% of their annual salary to the retirement system. The Village is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended February 29, 2008, the Village's annual pension cost of \$2,028 for the plan was equal to the Village's required and actual contribution. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE G: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 22,507	\$ 24,986	\$ 28,694
Actuarial accrued liability (AAL) (entry age)	11,345	15,018	37,597
Unfunded AAL	(11,162)	(9,968)	8,903
Funded ratio	198 %	166 %	76 %
Covered payroll	31,324	31,435	31,627
UAAL as a percentage of covered payroll	- %	- %	28 %

	Year Ended February 28/29,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ -	\$ 810	\$ 2,028
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTE H: RISK MANAGEMENT

The Village carries commercial insurance for the risk of loss due to workers' compensation claims.

The Village participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, automobile, and crime losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the Special Revenue Funds.

During the year ended February 29, 2008, the Village incurred expenditures in the General Fund and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 5,970	\$ 6,431	\$ 461
Executive	8,314	9,167	853
Financial administration	26,532	31,730	5,198
Halls and grounds	28,119	34,478	6,359

Village of Perrinton

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund - continued			
Public works			
Sanitation	\$ 25,000	\$ 29,470	\$ 4,470
Other financing uses			
Transfer out	15,568	94,316	78,748
Major Street Fund			
Public works	22,500	26,534	4,034
Local Street Fund			
Public works	12,900	14,123	1,223
Fire Fund			
Public safety	26,410	27,661	1,251

NOTE J: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

Governmental Funds	
General Fund	
Reserved for prepaids	\$ <u>848</u>
Major Street Fund	
Reserved for prepaids	\$ <u>212</u>
Local Street Fund	
Reserved for prepaids	\$ <u>355</u>
Fire Fund	
Reserved for prepaids	\$ <u>1,290</u>

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source (bond ordinance, etc.) which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 29, 2008:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for streets and highways	\$ <u>178,927</u>

NOTE L: RESTATEMENT OF NET ASSETS

Beginning net assets were restated to recognize construction in progress as of February 28, 2007. Beginning net assets for the Water Fund and business-type activities were increased by \$10,384.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Perrinton

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 50,030	\$ 50,800	\$ 51,834	\$ 1,034
Licenses and permits	20	20	10	(10)
Intergovernmental	45,000	46,260	43,446	(2,814)
Charges for services	16,850	15,953	17,625	1,672
Interest and rents	18,860	10,207	16,431	6,224
Other	300	1,000	6,477	5,477
TOTAL REVENUES	131,060	124,240	135,823	11,583
EXPENDITURES				
General government				
Legislative	5,200	5,970	6,431	(461)
Executive	5,550	8,314	9,167	(853)
Financial administration	19,500	26,532	31,730	(5,198)
Halls and grounds	41,850	28,119	34,478	(6,359)
Total general government	72,100	68,935	81,806	(12,871)
Public safety				
Fire department	500	500	500	-0-
Public works				
Highways and streets	7,400	6,400	6,099	301
Sanitation	26,500	25,000	29,470	(4,470)
Total public works	33,900	31,400	35,569	(4,169)
Recreation and cultural				
Parks and recreation	800	1,500	1,432	68
TOTAL EXPENDITURES	107,300	102,335	119,307	(16,972)
EXCESS OF REVENUES OVER EXPENDITURES	23,760	21,905	16,516	(5,389)
OTHER FINANCING USES				
Transfer out	-	(15,568)	(94,316)	(78,748)
NET CHANGE IN FUND BALANCE	23,760	6,337	(77,800)	(84,137)
Fund balance, beginning of year	207,261	207,261	207,261	-0-
Fund balance, end of year	\$ 231,021	\$ 213,598	\$ 129,461	\$ (84,137)

Village of Perrinton

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - State	\$ 26,000	\$ 29,800	\$ 28,567	\$ (1,233)
Interest	500	500	504	4
Other	50	50	45	(5)
TOTAL REVENUES	26,550	30,350	29,116	(1,234)
EXPENDITURES				
Public works	15,925	22,500	26,534	(4,034)
EXCESS OF REVENUES OVER EXPENDITURES	10,625	7,850	2,582	(5,268)
OTHER FINANCING USES				
Transfer out	(7,100)	(7,300)	(7,156)	144
NET CHANGE IN FUND BALANCE	3,525	550	(4,574)	(5,124)
Fund balance, beginning of year	96,245	96,245	96,245	-0-
Fund balance, end of year	<u>\$ 99,770</u>	<u>\$ 96,795</u>	<u>\$ 91,671</u>	<u>\$ (5,124)</u>

Village of Perrinton

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 10,000	\$ 10,200	\$ 10,107	\$ (93)
Interest	75	265	274	9
TOTAL REVENUES	10,075	10,465	10,381	(84)
EXPENDITURES				
Public works	15,282	12,900	14,123	(1,223)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(5,207)	(2,435)	(3,742)	(1,307)
OTHER FINANCING SOURCES				
Transfer in	7,100	7,300	7,156	(144)
NET CHANGE IN FUND BALANCE	1,893	4,865	3,414	(1,451)
Fund balance, beginning of year	83,842	83,842	83,842	-0-
Fund balance, end of year	<u>\$ 85,735</u>	<u>\$ 88,707</u>	<u>\$ 87,256</u>	<u>\$ (1,451)</u>

Village of Perrinton

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 24,450	\$ 23,850	\$ 23,350	\$ (500)
Interest	100	100	35	(65)
Other	-	1,650	2,150	500
TOTAL REVENUES	24,550	25,600	25,535	(65)
EXPENDITURES				
Public safety	22,020	26,410	27,661	(1,251)
Capital outlay	12,000	2,000	1,900	100
TOTAL EXPENDITURES	34,020	28,410	29,561	(1,151)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(9,470)	(2,810)	(4,026)	(1,216)
OTHER FINANCING SOURCES				
Transfer in	18,000	5,000	5,000	-0-
NET CHANGE IN FUND BALANCE	8,530	2,190	974	(1,216)
Fund balance, beginning of year	930	930	930	-0-
Fund balance, end of year	<u>\$ 9,460</u>	<u>\$ 3,120</u>	<u>\$ 1,904</u>	<u>\$ (1,216)</u>

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Perrinton
Perrinton, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Village of Perrinton, Michigan for the year ended February 29, 2008. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control structure and our discussions with management.

1. Documentation should be retained to support utility billings.

During the course of our audit it was noted that a billing register is not retained to support the amounts billed each billing cycle. Utility billings are generated using an electronic database merged with a word processing invoice template. When billings are processed a final billing register is not printed and retained for audit purposes and information for the previous billing cycle is replaced. It was also noted that the billings do not distinguish between amounts billed for the current period from amounts billed for penalties and past due balances.

We suggest the Village review the procedures related to utility billings and ensure that a complete billing register is printed for each billing cycle that distinguishes amounts billed for current period charges from amounts past due and penalties. These registers should be retained for audit purposes.

2. The Council should develop and implement a disaster recovery plan.

Based on our discussions with management, we noted that the Village Council has not formally developed and implemented a disaster recovery plan.

We suggest the Council adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation.

3. Transfers between Major and Local Street Funds

Public Act 9 of 2004 allows an entity to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State Trunkline highways.

We suggest the Village Council consider this while preparing and adopting future budget documents for the Village.

These written conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated July 2, 2008.

This report is intended solely for the use of management and the Village Council of the Village of Perrinton, Michigan and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 2, 2008

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Honorable President and
Members of the Village Council
Village of Perrinton
Perrinton, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Village of Perrinton, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated July 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Perrinton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following control deficiencies to be significant deficiencies in internal control over financial reporting.

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Village has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

Due to the Village not developing a fraud risk assessment and monitoring program it is unable to assess the Village's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Village develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of the financial statements for the year ended December 31, 2006 and after, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Village prepares monthly financial reporting at the fund level. However, the annual audited financial statements for the year ended February 29, 2008 for the Village of Perrinton required significant audit adjustments. The staff at the Village of Perrinton does understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries to record prior year journal entries and adjust accruals were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Village's internal controls.

We recommend that the Village take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. We consider the significant deficiency of "Material Journal Entries Proposed by Auditors" stated above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance:

BUDGETS

As noted in the financial statements, some of the activities and funds of the Village exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. This issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

INVESTMENT POLICY

During the course of our audit and through discussions with management, it was noted that the Village has not adopted an investment policy to address the issues required by MCL and the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Village's funds. These resources are necessary for the delivery of the Village's services. Effective for the year ended February 28, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We recommend the Village adopt an investment policy as required by MCL that addresses custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Village's financial statements by GASB Statement No. 40.

We noted certain matters that we reported to the management of the Village of Perrinton in a separate letter dated July 2, 2008.

This report is intended solely for the information and use of management and Members of the Village Council of the Village of Perrinton, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 2, 2008